

# Weekly Report

## Do 'Bad' Jobs Lead to 'Good' Jobs? Evidence for 1997-2007

For some years now the German Government has been imposing increasingly strict job search requirements on unemployed people. One aim of current policy is to ensure that, if citizens accept unemployment benefits, they must actively search for work. Clearly, case managers try to match jobs to the qualifications of their clients, but it is generally required that individuals must take any job they are capable of doing, or risk losing benefits. One implied and sometimes stated justification for the requirement is that, once a person enters or re-enters the job market, he/she may have an improved chance of finding a better paying or more satisfying job, compared with someone who remains unemployed. Simply put, the idea is that any job is better than none, that 'bad' jobs may lead to 'good' jobs, or at least to 'better' jobs.

An alternative view is that people in low-paying jobs are often trapped in what are termed 'dead-end' jobs and rarely get ahead in the labour market. On this view, a person who is unemployed may not be making a mistake by holding out for a well paid or more satisfying job, rather than taking almost any job offered.

These competing viewpoints can only be assessed by using medium or long term panel data; data which provide records of the labour force experiences and wages earned by the same individuals for a period of years. This article uses the last ten of data from the SOEP Survey to provide preliminary evidence. It must be conceded, though, that the issues are extremely complex and that more sophisticated methods than are used here might lead to different conclusions.

As a final introductory point it is important to bear in mind that the last ten years have all been problematic for the German labour market and the economy as a whole. Compared to boom times, these were difficult years for unemployed and low skill people to get any sort of job, let alone a good job.

### **Prime age men—it can be assumed that almost all want full-time jobs**

Initially, our main focus will be on what economists term 'prime age men'—men of prime working age, defined here as those aged 30-54—because for this group, unlike

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other groups in the community, it is absolutely clear what they want from the labour market.<sup>1</sup> These are men in their main family-raising and working years. They have almost all completed their education, and they are mostly not yet thinking of retirement. In virtually all cases, they want *full-time jobs*,<sup>2</sup> and we can of course assume that they would prefer a high rate of pay to a low rate. In SOEP almost all men in this age group specifically report that they want a full-time job. In fact, 15.7% of men in this age group actually held part-time jobs in 1997, but they too mostly wanted full-time positions.

The analysis is based on following the careers of the same men for ten years; technically this is a 'balanced' panel of men who are prime age and are assumed to want work throughout the 1997-2007 period. Let us divide the men into seven groups according to what is assumed to be their ascending order of preference in terms of labour force status and current hourly earnings.<sup>3</sup> The division is made in 1997, then five years later in 2002, and then ten years later in 2007.

1. unemployed
2. part-time work
3. full-time work but in lowest quintile (20%) of full-time hourly earnings
4. full-time work and second quintile of earnings
5. full-time work and third quintile of earnings

<sup>1</sup> Men with a health disability are omitted from the analysis.

<sup>2</sup> In the case of men, although not women, almost all part-time jobs pay quite low hourly rates.

<sup>3</sup> The earnings distribution referred to is for full-time prime age men with no health disability.

6. full-time work and fourth quintile of earnings
7. full-time work and highest quintile of earnings.

### The first five years

Table 1 shows what happened to these men in the labour market in the five year period 1997-2002.

The key result here is that men who held low-paying jobs in 1997—that is, they were in the lowest quintile of full-time earnings—achieved clearly better outcomes by 2002 than men who were unemployed in 1997. 85.5% were in work (77.0% full-time) in 2002, compared with 61.5% (51.2% full-time) of the previously unemployed. Those who were part-timers in 1997 also recorded much better outcomes by 2002 than men who had been unemployed, although a fairly high proportion (15.7%) remained in part-time work.

In general, the earnings distribution is moderately 'sticky'; many men remain in the same quintile in 2002 as they were in 1997. So, for example, 49.1% of those in the bottom quintile of full-time earnings in 1997 were in the same quintile in 2002, as were 35.3% in the second quintile, 32.8% in the third quintile, 34.7% in the fourth, and 59.1% in the top quintile. It should be noted that, although the top and bottom quintiles may appear more stable than the middle ones, this is misleading. Members of the 'extreme' quintiles can only move in one direction, not both.

Table 1

#### Labour Force Status & Earnings in 2002 by Status & Earnings in 1997: Prime Age Men (30-54) \*

Status & earnings in 2002	1997		1997				
	Not in full-time work		Full-time work				
	Unemployed %	Part-time work %	Lowest quintile earnings %	2nd quintile earnings %	3rd quintile earnings %	4th quintile earnings %	Highest quintile earnings %
Unemployed	38.5	12.7	14.5	5.4	4.3	2.5	1.2
Part-time work	10.3	15.7	8.5	3.6	6.4	6.2	4.1
Lowest quintile	17.9	18.7	49.1	24.0	8.1	3.7	1.2
2nd quintile	23.1	13.3	17.1	35.3	22.1	9.5	3.3
3rd quintile	7.7	15.7	5.1	20.8	32.8	24.0	6.2
4th quintile	2.6	12.7	4.3	8.1	19.1	34.7	24.8
Highest quintile	0.0	11.4	1.3	2.7	7.2	19.4	59.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

\* Population weighted results. The sample is restricted to men who were prime age throughout the period (n=1379).

Table 2

**Labour Force Status & Earnings in 2002 by Status & Earnings in 2007: Prime Age Men (30-54) \***

Status & earnings in 2007	2002		2007				
	Not in full-time work		Full-time work				
	Unemployed	Part-time work	Lowest quintile earnings	2 <sup>nd</sup> quintile earnings	3 <sup>rd</sup> quintile earnings	4 <sup>th</sup> quintile earnings	Highest quintile earnings
	%	%	%	%	%	%	%
Unemployed	37.9	6.8	4.5	2.3	1.1	0.5	0.1
Part-time work	19.7	22.0	11.2	8.1	7.5	5.6	2.3
Lowest quintile	24.2	16.9	61.8	15.7	7.0	2.3	2.3
2 <sup>nd</sup> quintile	12.1	23.7	15.7	46.5	18.8	7.0	2.3
3 <sup>rd</sup> quintile	4.5	11.9	3.9	16.9	41.9	25.4	6.3
4 <sup>th</sup> quintile	0.0	11.9	1.7	7.0	18.8	40.4	15.4
Highest quintile	1.5	6.8	1.1	3.5	4.8	18.8	70.3
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

\* Population weighted results. The sample is restricted to men who were prime age throughout the period (n=1 049).

**The second five years**

Table 2 now reports what happened to the same men in the second five year period, 2002-2007. As we know, most of those who had been unemployed or part-time in 1997 had found full-time jobs by 2002, but some (nearly half the unemployed and nearly 30% of part-timers) had not become full-timers. It is well known that the longer one remains unemployed, the harder it becomes to get a job, so we may expect to find less evidence of employment and wage mobility here.

Again in this second five years, it appears to be the case that it is better to have any job than no job. Only 42.3% of those who were unemployed in 2002 had a full-time job by 2007, compared to 71.2% of those who had been part-timers. Among those in the lowest quintile of full-time earnings in 2002, 61.8% were still in the same quintile in 2007, 4.5% had become unemployed, 11.2% were part-timers and the rest (22.5%) had moved up the earnings distribution.

Overall, as expected, there is less evidence of mobility in this second five year period. We already noted that the longer a person is unemployed, the harder it is to get a job. The same 'state dependence' applies to other labour market states and to relative earnings. Among these prime age men whose careers we are following, there is less movement among earnings quintiles in 1997-2002, as well as between labour market states, than there was in the earlier period.

**The ten year picture 1997-2007**

We now look at the picture for the full ten years in order to get an overview of changes in labour market states in the medium to long term.

It is clear that, if the aim is to get a full-time job, those who were unemployed in 1997 were still the worst off group ten years later. However, those who were part-timers in 1997 did as well as those who started in the bottom quintile of the full-time earnings distribution. There are some puzzles. Quite a high proportion of previously unemployed men (15.8%) reached the top two quintiles of the hourly earnings distribution by 2007, as did 21.9% of those who were part-timers in 1997. In this respect they recorded more upward mobility than men who started in the bottom two quintiles of the full-time earnings distribution.<sup>4</sup>

**Can the results be trusted? Taking account of human capital**

The results so far appear to show that, for the sake of later advancement in the labour market, it is generally preferable for prime age men to have almost any sort of job—a part-time and/or low paying job—rather than no job at all. However, it could be that the evidence in Tables 1-3 is misleading, because the evidence just consists of transition matrices,

<sup>4</sup> This puzzle is clearly worth further inquiry. However, results in the next section, where account is taken of human capital, cast some light.

Table 3

**Labour Force Status & Earnings in 2007 by Status & Earnings in 1997: Prime Age Men (30-54) \***

Status & earnings in 2007	1997		1997				
	Not in full-time work		Full-time work				
	Unemployed %	Part-time work %	Lowest quintile earnings %	2nd quintile earnings %	3rd quintile earnings %	4th quintile earnings %	Highest quintile earnings %
Unemployed	21.1	9.8	8.2	4.7	3.8	1.1	0.0
Part-time work	31.6	13.0	14.2	7.7	4.8	8.6	6.0
Lowest quintile	15.8	20.3	45.9	26.0	10.8	3.2	2.0
2nd quintile	10.5	21.1	18.6	33.1	24.2	9.1	3.5
3rd quintile	5.3	13.8	9.3	18.3	30.6	25.7	7.5
4th quintile	10.5	13.0	2.2	7.7	16.7	34.2	21.1
Highest quintile	5.3	8.9	1.6	2.4	9.1	18.2	59.8
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

\* Population weighted results. The sample is restricted to men who were prime age throughout the period (N=1066).

which do not tell us anything else about these men except their labour force status and earnings at three points in time. It is possible, indeed likely, that the men who were initially unemployed or in part-time jobs in 1997 had less human capital—less education, skill and work experience—than the men who were already in full-time jobs. Similarly, the men who found jobs sometime between during the decade are likely to have had more human capital than those who did not.

In order to test this possibility it is necessary to undertake more complicated multivariate analysis. Ordinal scale (ordered probit) regression analyses, based on the seven groupings used in Tables 1-3, appeared to confirm the main results reported above.<sup>5</sup> The analysis took account of (or 'controlled for') standard human capital variables—differences in age, years of education and years of work experience—among the men in the seven groups. Table 4 gives results just for the 2002-2007 period, when the policy of pressuring unemployed people to take any job offered was more strongly enforced than earlier.

The comparison group (or reference group) for all others in this table is men who were unemployed in 2002. Compared with them, and allowing for the effects of human capital, all other groups were significantly better off by 2007. However, the gains made by part-timers were actually greater than the

gains achieved by those in the bottom quintile of the full-time earnings distribution. This could be interpreted as showing (once human capital is taken into account) that being a part-timer is at least as good a stepping stone into the labour market as getting a poorly paid full-time job. Part-timers with good human capital can move up the earnings distribution, as the evidence in the previous table suggested.

A methodological reservation needs to be entered. The tentative conclusion that any job is better than no job appears to hold true, netting out the effects of human capital. But this does not rule out the possibility that other unmeasured influences (for example, intelligence? looks? motivation?) may account for the results.

### Results similar for prime age women

An analysis of prime age women's labour market outcomes is unavoidably more ambiguous, because it certainly cannot be assumed that all women want full-time, well paying jobs in preference to part-time or lower paying jobs. Indeed, most part-timers report that they prefer to remain part-time. There is also little doubt that, because of child-rearing and domestic responsibilities, some women prefer a lower paying job that is conveniently located close to home versus a higher paying job that is less convenient.

<sup>5</sup> In this analysis it is explicitly assumed that the seven groups can be ordered according to the desirability (utility) of their situation in 2002 and again in 2007.

Despite the ambiguities, it is of interest to record the destinations of women who started out in different labour market groups in 1997. Only the ten-year results (1997-2007) are shown in Table 5.<sup>6</sup>

It is clear that prime age women who started out in the lowest full-time earnings quintile in 1997 achieved much better outcomes by 2007 than those who were unemployed and seeking work. Part-timers do better still. But, as noted earlier, many women prefer part-time work. Some evidence for this can be gleaned by noting that quite high proportions of women who were in the top two earnings quintiles in 1997 had switched to part-time work ten years later. It is likely that many were high skill people who did so voluntarily.

## Discussion

It seems quite likely that the evidence supporting the proposition that prime age men who already have a part-time job, or a low paying full-time job, are in a better position to move on to higher paying job than those who are unemployed can be generalised to other sections of the workforce. It is harder to test the proposition for non-prime age men and for women because their job preferences are less clear-cut and more likely to change, so the outcomes they achieve cannot readily be ranked.

<sup>6</sup> Analysis is confined to prime age women who had a job or were seeking a job at both dates and who did not have a health disability.

Table 4

### Labour Force Status & Hourly Rates in 2007 of Prime Age Men by Status & Hourly Rate in 2002: Ordered Probit Analysis

Explanatory variables	Dependent variable: labour force status & earnings quintile in 2007 (7 ranked categories)
Employed part-time 2002 <sup>a</sup>	1.00***
Quintile 1 of full-time earnings 2002 <sup>a</sup>	0.61***
Quintile 2 in 2002 <sup>a</sup>	1.27***
Quintile 3 in 2002 <sup>a</sup>	1.68***
Quintile 4 in 2002 <sup>a</sup>	2.32***
Quintile 5 in 2002 <sup>a</sup>	3.18***
Age	-0.37*
Age squared/10	0.05*
Years of education	0.11***
Work experience <sup>b</sup>	0.03*
L.R. Chi square (9)	674.10***
Pseudo R squared	18.8%
N	959

<sup>a</sup> Reference group: men who were unemployed in 2002.

<sup>b</sup> Years in full-time paid work since the age of 15.

\*\*\* significant at 0.001

\* significant at 0.05.

The findings here may seem obvious or 'common-sense'. To some observers it might seem overwhelmingly likely that employers, faced with a range of job applicants, would generally prefer those who already had a job, especially if they also had good references, to those with no job. However, the find-

Table 5

### Labour Force Status & Earnings in 2007 by Status & Earnings in 1997: Prime Age Women (30-54)\*

Status & earnings in 2007	1997		1997				
	Not in full-time work		Full-time work				
	Unemployed %	Part-time work %	Lowest quintile earnings %	2nd quintile earnings %	3rd quintile earnings %	4th quintile earnings %	Highest quintile earnings %
Unemployed	31.5	7.5	8.6	0.0	3.1	6.0	0.0
Part-time work	46.3	60.4	21.0	35.1	20.8	16.9	30.5
Lowest quintile	13.0	8.0	49.4	8.1	2.1	1.2	2.4
2 <sup>nd</sup> quintile	3.7	6.9	16.0	32.4	15.6	6.0	0.0
3 <sup>rd</sup> quintile	0.0	6.9	4.9	16.2	26.0	18.1	2.4
4 <sup>th</sup> quintile	0.0	4.4	0.0	4.1	25.0	24.1	23.2
Highest quintile	5.6	5.8	0.0	4.1	7.3	27.7	41.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

\* Population weighted results. The sample is restricted to women who were prime age throughout the period (N=831). Women not in the labour force and not seeking work are omitted, as are women with a health disability.

ings do run counter to some research which claims that people in low paying jobs tend to be ‘trapped’ and rarely move out of their ‘dead-end’ jobs. Overall, it is clear that there is a moderate degree of labour force and earnings mobility both for men and women.

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